



**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of financial position	2
Statements of activities	3
Statements of cash flows	4
Notes to financial statements	5-9

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Internet Corporation for Assigned Names and Numbers

We have audited the accompanying statement of financial position of Internet Corporation for Assigned Names and Numbers (ICANN) as of June 30, 2005 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Internet Corporation for Assigned Names and Numbers. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of June 30, 2004 and for the year then ended were audited by other auditors whose report, dated August 13, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Internet Corporation for Assigned Names and Numbers as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Handwritten signature of Closs Adams LLP in black ink.

Los Angeles, California
April 19, 2006

ICANN**STATEMENTS OF FINANCIAL POSITION**

JUNE 30,	2005	2004
ASSETS		
Cash and cash equivalents	\$ 1,910,069	\$ 2,539,344
Accounts receivable, net	9,372,070	2,872,268
Prepaid and deferred expenses	13,438	-
Property and equipment, net	350,604	250,032
Other assets	15,243	35,625
Total assets	<u>\$ 11,661,424</u>	<u>\$ 5,697,269</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,707,397	\$ 901,744
Deferred revenue	1,722,026	655,632
Total liabilities	<u>3,429,423</u>	<u>1,557,376</u>
NET ASSETS		
Unrestricted	<u>8,232,001</u>	<u>4,139,893</u>
Total liabilities and net assets	<u>\$ 11,661,424</u>	<u>\$ 5,697,269</u>

ICANN

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,

2005

2004

CHANGES IN UNRESTRICTED NET ASSETS

Support and revenue

Domain name registry and registrar fees	\$ 14,136,273	\$ 7,280,463
Address registry fees	823,000	535,000
Accreditation fees	1,992,893	1,176,147
Application fees	791,500	947,500
Contributed goods and services	5,999	6,370
Interest income and other income	57,646	12,408
Net assets released from restrictions	-	15,000
Total support and revenue	<u>17,807,311</u>	<u>9,972,888</u>

Expenses

Personnel	4,218,971	3,065,888
Board and public meetings	1,510,299	775,688
Other meetings and travel	1,121,398	617,467
Professional services	3,898,490	3,329,095
Administration	2,966,045	1,780,719
Total expenses	<u>13,715,203</u>	<u>9,568,857</u>
Change in unrestricted net assets	<u>4,092,108</u>	<u>404,031</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions and grants	-	15,000
Net assets released from restrictions	-	(15,000)
Change in temporarily restricted net assets	<u>-</u>	<u>-</u>
Change in net assets	4,092,108	404,031

NET ASSETS, beginning of year

4,139,893 3,735,862

NET ASSETS, end of year

\$ 8,232,001 \$ 4,139,893

ICANN**STATEMENTS OF CASH FLOWS**

YEARS ENDED JUNE 30,	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,092,108	\$ 404,031
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities:		
Depreciation	111,609	53,372
Bad debt expense	1,203,989	757,135
Changes in operating assets and liabilities:		
Accounts receivable	(7,703,791)	(470,573)
Prepaid expenses	(13,438)	-
Other assets	20,382	45,373
Accounts payable and accrued liabilities	805,653	329,414
Deferred revenue	<u>1,066,394</u>	<u>258,582</u>
Net cash (used in) provided by operating activities	<u>(417,094)</u>	<u>1,377,334</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(212,181)</u>	<u>(190,701)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payment on loan payable	<u>-</u>	<u>(3,705)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(629,275)	1,182,928
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,539,344</u>	<u>1,356,416</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,910,069</u>	<u>\$ 2,539,344</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ -</u>	<u>\$ 46</u>

ICANN

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Internet Corporation for Assigned Names and Numbers (ICANN) was established in September 1998 under the laws of the state of California as a non-profit organization. ICANN coordinates a select set of the Internet's technical management functions, such as the assignment of protocol parameters, the management of the domain name system, the allocation of Internet protocol (IP) address space, and the management of the root server system. Categories of Internet domains include Generic Top Level Domains (gTLDs) which include the *.com*, *.net*, *.org*, and *.edu* domains and Country Code Top Level Domains (ccTLDs), examples of which are *.us*, *.uk*, and *.fr*. ICANN generates income from fees received from domain name registrars and related accreditation activities. Its primary sources of revenue are as follows:

- *Domain name registry and registrar fees* - Amounts contributed by organizations responsible for the registration and administration of Internet domain names.
- *Address registry fees* - Amounts contributed by organizations responsible for the assignment and administration of Internet addresses.
- *Accreditation fees* - Amounts paid in connection with initial and renewal accreditation of organizations engaged in the registration and administration of domain names in the *.com*, *.net*, *.biz*, *.info*, *.museum*, *.name*, and *.org* Internet domains.
- *Application fees* - Amounts paid in connection with processing of applications to become accredited domain name registrars.

ICANN also receives contributions and grants from other organizations.

ICANN has three supporting organizations which serve as advisory bodies to the ICANN board of directors with respect to internet policy issues and structure within three specialized areas, including the system of IP addresses and the domain name system. The supporting organizations are the primary source of substantive policy recommendations for matters lying within their respective specialized areas. The three supporting organizations are the Address Supporting Organization (ASO), Generic Names Supporting Organization (GNSO), and the Country Code Domain Name Supporting Organization (CCNSO). The supporting organizations are not separately incorporated entities. Transactions handed by ICANN on behalf of GNSO are included in the accompanying financial statements.

ICANN

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The financial statements of ICANN have been prepared on the accrual basis of accounting. ICANN recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of ICANN and the changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the objectives of ICANN.
- *Temporarily restricted assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of ICANN and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity. Investment income generated from these funds is available for general support of ICANN's programs and operations unless otherwise stipulated by the donor.

As of June 30, 2005 and 2004, ICANN has no permanently or temporarily restricted net assets.

Functional allocation of expenses - Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on methods determined by management. As of and for the years ended June 30, 2005 and 2004, respectively, ICANN's expenses are classified as follows:

	<u>2005</u>	<u>2004</u>
Program services	\$ 8,656,483	\$ 6,602,511
Supporting services:		
Management and general	<u>5,058,720</u>	<u>2,966,346</u>
Total	<u>\$ 13,715,203</u>	<u>\$ 9,568,857</u>

Cash and cash equivalents - Cash and cash equivalents include deposits in bank, money market accounts, and marketable commercial paper.

Property and equipment - Property and equipment are stated at cost or, for contributed items, at fair market value at date of contribution. The equipment, furniture and fixtures are being depreciated using the accelerated method over estimated useful lives of five to seven years. Leasehold improvements are being depreciated using the straight-line method over the useful life or the remaining lease term, whichever is shorter. Acquisitions of property and equipment in excess of \$10,000 are capitalized.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue/Accreditation fees - Accreditation fees attributable to future activities are included in cash and cash equivalents or accounts receivable and reflected as deferred revenue until earned.

Promises to give - Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Contributed goods and services - The value of significant donated goods is reflected as contributions in the accompanying financial statements. For the years ended June 30, 2005 and 2004, ICANN received \$5,999 and \$6,370, respectively, in contributed goods.

Contributed services are recognized only if the services (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the years ended June 30, 2005 and 2004, no contributed services were received.

Income taxes - ICANN is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Concentration of credit risk - Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Organization places its cash with major financial institutions. The cash held at these financial institutions may, at times, exceed the amount insured by the Federal Deposit Insurance Corporation. Concentration of credit risk with respect to receivables is mitigated by the diversity of customers comprising the Organization's customer base and the maintenance of allowances for doubtful accounts.

Accounts Receivable - The Organization carries its accounts receivable at invoiced amounts less allowances for doubtful accounts. The Organization does not accrue interest on its receivables. On a periodic basis, the Organization evaluates its accounts receivable and establishes allowances based on overdue accounts and a history of past write-offs.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain reclassifications have been made to the 2004 financial information to conform to 2005 presentation.

ICANN

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following constituencies for various registry and accreditation fees at June 30:

	<u>2005</u>	<u>2004</u>
ccTLDs	\$ 659,593	\$ 426,912
gTLD registries and registrars	8,864,465	1,848,558
IP address registries	1,839,980	1,292,761
Other	<u>5,000</u>	<u>103,545</u>
	11,369,038	3,671,776
Less allowance for doubtful accounts	<u>(1,996,968)</u>	<u>(799,508)</u>
	<u>\$ 9,372,070</u>	<u>\$ 2,872,268</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2005</u>	<u>2004</u>
Computer equipment	\$ 628,655	513,134
Furniture and fixtures	140,855	44,195
Leasehold improvements	<u>112,315</u>	<u>112,315</u>
	881,825	669,644
Less accumulated depreciation	<u>(531,221)</u>	<u>(419,612)</u>
	<u>\$ 350,604</u>	<u>\$ 250,032</u>

NOTE 5 - LEGAL MATTERS

In the ordinary course of business, ICANN is subject to lawsuits and other potential legal actions. Management is unable at this time to determine the probable outcome or the effect, if any, that these actions may have on the financial position and the ongoing operations of the Company. Accordingly, the accompanying financial statements do not include a provision for any losses that may result from the Company's current involvement in legal matters.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - RELATED PARTY TRANSACTIONS

The individual acting as ICANN's president and chief executive officer (CEO) is currently provided to ICANN through a professional services agreement with a company in which the president and CEO has an interest. Total payments for the years ended June 30, 2005 and 2004, including fees for professional services and reimbursed expenses (airfare and travel-related expenses, telecommunications, information technology supplies and support, and office supplies), were approximately \$591,000 and \$557,000, respectively. Included in accounts payable and accrued liabilities as of June 30, 2005 and 2004, is approximately \$54,000 and \$40,000, respectively, of reimbursable expenses payable to the affiliated company.

NOTE 7 - COMMITMENTS

The Company leases its offices and certain other facilities under two operating lease agreements with termination clauses from three to six months. Rent expense amounted to approximately \$345,000 and \$301,000 for the years ended June 30, 2005 and 2004, respectively. Minimum payments under the cancelable operating lease for the future year ending June 30, 2006 are \$150,641.